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SOCIAL POLICY

# Down but Not Out: Reforming Social Assistance Rules that Punish the Poor for Saving

By
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- Encouraging asset accumulation, even in small amounts, is crucial in helping to lift people out of poverty. Yet most Canadian welfare, disability and social service programs deny or cancel benefits if applicants and recipients place a modest level of savings in a Registered Retirement Savings Plan (RRSP) or a Tax Free Savings Account (TFSA).
- The existing rules force social program applicants and recipients to liquidate savings to avoid ineligibility.
- Barring a province-led effort at reform, the federal government should take the lead by calling on provinces and territories to exempt meaningful RRSP and TFSA amounts from their welfare asset rules, leaving individual jurisdictions to decide the appropriate levels.


One of the goals of social assistance programs in Canada is to put in place measures to break the cycle of welfare dependency. Savings, however small, can provide a cushion against unforeseen circumstances or provide the foundation for later choices about education or work. When governments penalize welfare applicants or recipients for saving by denying program benefits – as happens in the case of savings in Registered Retirement Savings Plans (RRSPs) and Tax Free Savings Accounts (TFSAs) – social assistance programs may become traps.

On the other hand, by helping to meet contingencies and pay the additional costs associated with moving toward self-reliance, measures that promote asset-building can help people to save, invest in skills and education, and facilitate labour-force entry. Encouraging asset accumulation, even in small amounts, is crucial in helping to lift people out of poverty.

## *The Background*

As registered savings instruments have evolved over the past decade, some types of assets have been exempted from asset limitations in social programs; others have not. In 2003, Canada had two popular, voluntary registered savings instruments: RRSPs and Registered Education Savings Plans (RESPs). At the time, most Canadian welfare, disability, and social service programs denied benefits to applicants and recipients if they held even small amounts of savings in RRSPs or RESPs. If the amounts exceeded a certain threshold – now $1,619, in total, for a single parent and child on welfare in Ontario – applicants

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were denied access to income or services. They had to cash in the RRSP or RESP and exhaust the proceeds before they could reapply for assistance.

Between 2004 and 2006, a sea change took place in the approach provincial and territorial governments took towards RESPs, but not RRSPs. All jurisdictions exempted RESP assets in their welfare, disability, and social service programs (e.g., child care in Ontario).[1]

But by 2009, the federal government had established two new registered savings vehicles. The first, in 2008, was the Registered Disability Savings Plan (RDSP) whereby parents and relatives may fund a savings plan for a loved one with a disability. RDSPs are generallly exempt from social assistance limits. Once withdrawn from the plans they would be considered as income. At this point provinces have different provisions concerning the treatment of the proceeds.

The second savings vehicle, in 2009, was the Tax Free Savings Account – funds held in a TFSA are consistently counted as liquid assets under provincial social assistance programs across Canada.[2]

## *Rife with Inconsistency*

Governments across Canada have not articulated why RESPs and RDSPs are exempt from asset limitations while RRSPs and TFSAs, generally speaking, are not. One reason may be that RDSPs and RESPs offer federal cash incentives for saving (i.e., matching contributions), and provinces do not want to adopt policies that would inhibit such saving. Another reason, perhaps more intuitive, could be that provinces impose conditions on withdrawals to better ensure that individuals consume goods and services they deem desirable, such as skills acquisition through education.

Whatever the reason, there is no consistency in the way that various provinces apply limits to RRSPs (Table 1). Whereas Alberta, Newfoundland and Labrador, and Quebec allow a certain amount of RRSP savings, other jurisdictions are less specific but they may provide a grace period to cash in any type of liquid asset, which would include RRSPs.[3] Currently, all jurisdictions limit TFSA holdings.

## *Potential Role for Federal Leadership*

Could a federal nudge to provincial social assistance programs' treatment of TFSAs and RRSPs help? Although many people believe that federal leadership for provincial programs is either ineffective or unimportant, previous displays of federal leadership in the area of social assistance show that provinces and territories respond to federal calls for change.[4]

Provinces and territories currently count savings in TFSAs and RRSPs as both assets and income under most welfare programs.[5] One consequence of these inconsistent policies is that social assistance recipients with

1 On October 7, 2004 Ontario Social Services Minister Sandra Pupatello described RESP clawbacks as "a dumb rule that works at cross-purposes to what welfare is supposed to be doing for people and their families." Richard Brennan, "Education plans safe under welfare change," *Toronto Star*, 7 October 2004, A08.

2 The newest registered tax instruments are explained at http://www.cibc.com/ca/features/tax-tips/contribute-rrsp.html.

3 There are provisions in other provinces similar to Newfoundland and Labrador that are less specific. For example: PEI provides 90 days to welfare applicants to liquidate assets at a loss not to exceed 25 percent of their market value. If losses would exceed 25 percent, then the asset may continue to be exempt. In Nova Scotia, applicants must be given time to convert any assets not readily convertible to cash and may receive assistance as long as they are pursuing their sale. New Brunswick appears to parallel Ontario in that investments under the Pension Act are excluded until they can be accessed. Otherwise, the recipient must liquidate and pay any penalty. Manitoba has a four-month grace period. Saskatchewan provides up to 90 days for applicants to convert liquid assets. In most cases, the language is loose and provides administrators with a wide berth to exercise appropriate discretion.

4 The following are recent examples of success in this area: (i) when finance minister John Manley asked provinces to stop clawing back increments in the federal National Child Benefit Supplement (NCBS)from welfare payments in 2003, all provinces complied; (ii) when Human Resources and Social (now Skills) Development Canada asked all provinces to exempt RESPs from welfare payments in 2004, all jurisdictions (eventually) complied; and (iii) when Finance Minister Jim Flaherty asked provinces to exempt the Working Income Tax Benefit (WITB) and the Registered Disability Savings Plan (RDSP) from welfare payments, all complied.

5 Funds held in registered instruments are considered as assets. Once redeemed, they are considered income.

## Table 1: Treatment of Registered Instruments in Provincial Social Assistance Programs in Canada, 2010

| Jurisdiction | Legislation | Registered Instruments: Registered Retirement Savings Plan | Registered Education Savings Plan | Registered Disability Savings Plan | Tax Free Savings Account | Current Liquid Asset Exemption Levels* |
|---|---|---|---|---|---|---|
| **NL** | *Income and Employment Support Act* & Regulations. | **Non exempt** in most cases. If value is less than $10,000, it is considered exempt for the first 90 days, after which time it is considered a liquid asset, provided it can be liquidated. Reg – Sec 26(3). | **Exempt.** Not considered a liquid asset. Reg – Sec 8(b)(iv). | **Exempt.** Funds received from or accumulated in an RDSP are exempt income. Reg – Sec. 8(a)(xi). | **Non exempt.** Bank deposits considered a liquid asset. Reg – Sec 8(b). | Single employable – $500.<br>Single with Disability – $3,000.<br>Lone Parent + 1 – $1,500.<br>Couple + 2 – $1,500. |
| **P.E.I.** | *Social Assistance Act* & Regulations. | **Non exempt.** The realizable value of any RRSP is considered a liquid asset. Reg – Sec. 13(4)(c). | **Exempt.** Not considered as income as long as the funds remain in the plan or, if cashed, that they are used towards educational purposes. Reg – Sec. 13(5)(t). | **Exempt** as an asset. Once redeemed they are exempt income up to the point where the combined RDSP income and departmental benefits meet the provincial low income rates. Policy Manual, Section 4-4, Income Exemptions, item 22. | **Non exempt.** Bank deposits considered a liquid asset. Reg – Sec 13(4(b)). | Single employable – $50 – $200.<br>Single with Disability – $900.<br>Lone Parent + 1 – $50 – $1,200.<br>Couple + 2 – $50 – $1,800.<br>Note: lower amounts apply to applicants for short-term assistance. |
| **NS** | *Employment Support and Income Assistance Act* and Regulations. | **Non exempt** in most cases. Any part of an RRSP that is part of an employment pension program is exempt. Reg – Sec. 2(f)(vi). | **Exempt.** Not considered a liquid asset. Reg – Sec. 2(f)(v). | **Exempt** as an asset. Income withdrawn is considered exempt. Reg – Sec 60(A). | **Non exempt.** Bank deposits considered a liquid asset. Reg – Sec 2(t). | Single employable – $500.<br>Single with Disability – $500.<br>Lone Parent + 1 – $ 1,000.<br>Couple + 2 – $1,000. |
| **NB** | *Family Income Security Act* & Regulations. | **Non exempt.** Considered a liquid asset. Policy Manual, Liquid Assets section. | **Exempt.** Not considered a liquid asset. Policy Manual, Asset Exemptions section. | **Exempt** as an asset. Once redeemed, client can receive $800/month in addition to SA benefit. Social Development Press Release http://www.gnb.ca/cnb/news/fcs/2008e1796sd.htm | **Non exempt.** Bank deposits considered as available resources. Reg – Sec 8(1)(a). | Single employable – $1,000.<br>Single with Disability – $3,000.<br>Lone Parent + 1 – $2,000.<br>Couple + 2 – $2,000. |
| **Que.** | *Individual and Family Assistance Act* & Regulations Note: $60K asset limit represents the total exemption amount from all eligible sources. | **Exempt** to $60K. Reg – Sec. 141(1), 146(4).<br>Sums withdrawn from an RRSP and used towards the Home Buyers Plan are exempt provided they are used prior to October 1 of the year following withdrawal.<br>Reg – Sec. 138(8). | **Exempt** to $60K. RESPs up to an accumulated total of $60,000 are considered exempt liquid assets. Reg – Sec. 141(6).<br>Income withdrawn from an RESP being used for education is considered as exempt income. Reg – Sec. 111(4). | **Exempt** as an asset. Reg – Sec 138(13). Once redeemed, exempt as income as follows: $300/month for a 1-adult unit $340/month for a 2-adult unit. Fully exempt for a dependent child. Reg – Sec. 111(29)(30). Note: not subject to the $60,000 maximum. | **Non exempt.** Bank deposits considered a liquid asset. Reg – Sec. 128(1). | Single employable – $883.<br>Single with Disability – $883.<br>Lone Parent + 1 – $1,262.<br>Couple + 2 – $1,799. |
| **Ont.** | *Ontario Works Act* & Regulations. *Ontario Disability Support Program Act* & Regulations. | **Non exempt** in most cases. Considered a non-exempt asset. Where the funds are in a "locked-in" RRSP, they are exempt. These funds are not accessible until retirement age (generally 55) is reached. Once redeemed, income is non-exempt.<br>OW Policy Manual, Directive 4.7<br>ODSP Policy Manual, Directive 4.1 | **Exempt.** Not considered an asset.<br>OW Reg – Sec. 39(1)(21).<br>ODSP Reg- Sec. 28(1)(26).<br>Not considered as income when redeemed for post-secondary education.<br>OW Reg – Sec. 54(1)(11.3).<br>ODSP Reg – Sec. 43(1)(15.3). | **Exempt.** Not considered an asset.<br>OW Reg 39(1)(21.1).<br>ODSP Reg – Sec 28(1)(26.1).<br>Not considered as income when redeemed.<br>OW Reg – Sec. 54(1)(11.6).<br>ODSP Reg – Sec. 43(1)(15.6). | **Non exempt.** Not included in list of asset exclusions noted in both OW and ODSP regulations.<br>OW Reg – Sec. 39.<br>ODSP Reg – Sec. 28. | Single employable – $585.<br>Single with Disability – $6,000.<br>Lone Parent + 1 – $1,619.<br>Couple + 2 – $2,194. |

*(Continued on next page)*

Table 1 *(cont'd)*

| Jurisdiction | SA Legislation | Registered Instruments: Registered Retirement Savings Plan | Registered Education Savings Plan | Registered Disability Savings Plan | Tax Free Savings Account | Current Liquid Asset Exemption Levels* |
|---|---|---|---|---|---|---|
| **Man.** | *Employment and Income Assistance Act* & Regulations. | **Non exempt.** Considered a liquid asset to be converted within four-month conversion period. Exception: those described as "non-commutable, non-refundable and non-transferable". Policy Manual Section 6.84 Once redeemed, considered unearned income and non exempt Policy Manual Section 15. | **Exempt.** Not considered an asset. Reg – Sec. 8(1)(a)(xiv). | **Exempt.** Both as an asset while in plan and as income when redeemed Press release November 21, 2008. http://www.gov.mb.ca/chc/press/top/2008/11/2008-11-21-120900-4790.html | **Non exempt.** Policy Manual defines liquid assets to include cash in the bank. Policy Manual, Section 14.3.1. Note: Regs Sec. 8(1)(a)(xiv) exempts asset building accounts (RESPs, IDAs) and "accounts under similar programs approved by the Minister". | Single employable – $0. Single with Disability – $2,000. Lone Parent + 1 – $2,000. Couple + 2 – $0. |
| **Sask.** | *Saskatchewan Assistance Act* & Regulations, Transitional Employment Allowance Regulations. | **Non exempt** under either SAP or TEA Considered a liquid asset. Where funds are "locked in" they are exempt. Reg – Sec. 29(B)(1) Policy Manual, Chapter 20. | **Exempt** under SAP. Not considered an asset. Reg – Sec. 28(2)(y.1). Non exempt under TEA. | **Exempt** under SAP. Funds held in plan or money withdrawn. Reg – Sec. 28(2)(y.2) Policy Manual page 106 & 113. Non exempt under TEA. | **Non exempt.** Bank deposits considered a liquid asset. Reg – Sec. 29B(1)(i) | Single employable – $1,500. Single with Disability – $1,500. Lone Parent + 1 – $3,000. Couple + 2 – $4,000. |
| **Alta.** | *Income and Employment Supports Act* & Income Supports, Health and Training Benefits Regulation. | **Partially exempt.** Up to $5,000 per adult household member. Reg – Sec. 5(2)(l). If a household member is a full-time learner, the RRSP exemption level is $100,000 for the household. Reg – Sec. 5(2)(2). | **Exempt.** Not considered an asset. Reg – Sec. 5(2)(j). | **Exempt** as an asset. Reg – Sec. 5(2)(j.1). Payments are exempt income. Reg – Sec. 6(4)(a)(xxiv). | **Non exempt.** Cash in bank considered a liquid asset. (Reg Sec. 1(1)(q)). Note: Regs Sec 5(2)(01) excludes "money accumulated by a member of the household unit ….under another savings program approved by the Minister." | Single employable – $588. Single with Disability – $1,530. Lone Parent + 1 – $1,002. Couple + 2 – $1,532. |
| **B.C.** | *Employment and Assistance Act* & Regulations, *Employment and Assistance for Persons with Disabilities Act* & Regulations. | **Non exempt.** Online resource document indicates they are not exempt unless locked in. See "Verification & Eligibility – Assets & Exemptions: Policy" section. Income derived from an RRSP is considered unearned income and is not exempt. See "Verification & Eligibility – Income & Exemptions: Policy" section. | **Exempt.** Not considered an asset. E&A Reg – Sec. 11(1)(ff). E&APWD Reg – Sec. 10(1)(ff). The Minister may exempt income from an RESP in the case of a dependent child or if the client is not expected to work and is enrolled in part-time studies. E&A Reg – Schedule B, Sec. 8(2)(c) and 8(3). E&APWD Reg – Schedule B, Sec. 8(2)(c). | **Exempt.** E&A Reg – Sec. 11(1)(jj). E&IAPWD Reg – Sec. 10(1)(jj). Fully exempt as unearned income. E&A Reg – Sec. 28(b) (see Schedule B, (1)(a)(xxxiii)). E&APWD – Sec. 24(b) (see Schedule B, (1)(a) (xxxiv)). | **Non exempt.** Money in the bank considered a cash asset. E&A Reg – Sec. 1(1), E&APWD Reg – Sec. 1(1). | Single employable – $770. Single with Disability – $3,000. Lone Parent + 1 – $1,100. Couple + 2 – $1,351.0 |

*Asset exemption levels shown are for applicants only. Some jurisdictions have higher levels for those already in receipt of assistance. Single parent has 2-year-old child and couple has two children aged 10 and 15.

Sources: Canadian Social Research Links "Key Welfare Links" http://www.canadiansocialresearch.net/welfare.htm

TFSA information for provinces confirmed via provincial contacts.

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disabilities, and those who have children, have a savings advantage over the non-disabled and those without children through the RESP and RDSP exemptions.

A second consequence is that unemployed workers, who may have a small amount of savings in RRSPs, must liquidate them to be eligible for assistance, and subsequently face an income tax bill the next year when they can least afford to pay. These individuals or families not only lose a key source of income to help get them back into the labour force, but lose some of their savings for retirement, and are likely to become even more reliant on government support programs like the Guaranteed Income Supplement (GIS) when they turn 65.

### *Inconclusive Effects on Caseloads or Costs*

Provinces and territories typically argue that the failure to disqualify applicants with modest RRSPs will result in higher caseloads and new costs under social assistance programs. They are also wary of the political costs of allowing people to collect welfare dollars when they have assets in any form.

Yet these criticisms fail to examine the unintended consequences of overly punitive restrictions:

> ... Asset limits encourage recently laid-off individuals to transfer any liquid assets into exempt forms in order to qualify for social assistance. The low asset limit will likely deny eligibility to certain potential beneficiaries, but we suspect that they will choose to shift or deplete assets in order to qualify. These asset limits are then likely a greater barrier to moving from social assistance than to qualifying for social assistance (Burleton and Bishop 2009).[6]

## Conclusion and Recommendations

Barring a province-led effort to uniformly exempt savings vehicles available to low-income Canadians, the federal government should assume a leadership role in promoting social assistance reforms. The starting place is a call to all provinces and territories to exempt RRSP and TFSA amounts from their welfare asset rules, leaving individual provinces to decide the appropriate levels.

Governments should:

- Set an upper limit or ceiling on the amount of RRSP and TFSA savings to be exempt for needs-tested programs. A starting point would be $10,000 for families with RRSPs and $5,000 for TFSAs;
- Decide whether the ceiling would apply to applicants and recipients, or current recipients only. If there are concerns about social assistance caseload growth, start with current recipients only while considering the issue of asset stripping new applicants;
- Decide the circumstances under which withdrawals from either RRSPs or TFSAs would be allowed without affecting eligibility for assistance. For example, start with withdrawals that would support self-reliance (e.g., for training) and the transition through high tax constraints that arise when coming off social assistance (Stapleton and Shillington 2009).

In designing reforms, policymakers should examine innovations implemented by three provinces – Quebec, Alberta, and Newfoundland and Labrador – that have formal exemptions of one kind or another for RRSPs. If welfare caseloads continue to climb across Canada, policymakers will want to ensure that this new cadre of recipients is not stripped of the financial assets that will help them retool.

6 Other responses to reforms of savings vehicles for potential social assistance recipients suggest that caseloads may not significantly rise. For instance, at the time of the Ontario announcement to exempt RESPs in 2004, single parent caseloads were on a downward trend. And although the substance of the announcement was to raise the asset limit of a lone parent on welfare from approximately $1,500 to $45,000 (a 3,000 percent increase), single parent caseloads in Ontario continued to head downward until the recession of late 2008.

## References

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